



## Rural Housing Service Single Family Housing *Louisiana*

Revised January 2008

### Section 502 Rural Housing Loan Program

*The objective of the Section 502 Direct Single Family Housing program is to assist very low- and low-income persons obtain financing for modest, decent, safe and sanitary housing in rural areas. Loan funds may be used to buy, build, rehabilitate, improve, or relocate an eligible dwelling for use by the borrower as a permanent residence and to provide related facilities, i.e. individual water and waste disposal systems for these homes. Financing for new manufactured homes is also available.*

A rural area is open country which is not part of or associated with an urban area; has a population not in excess of 10,000, if it is rural in character, or has a population in excess of 10,000 but not in excess of 25,000, and has a serious lack of mortgage credit for low- and moderate-income households.

Applicants for direct loans from RHS must have very low- or low-incomes. Very low-income is defined as below 50 percent of the area median income, and low-income is between 50 and 80 percent of the area median income.

*In addition to the income limit requirements, the applicant must:*

- ✓ Be without ownership of decent, safe, and sanitary housing, or be a person who does not own a dwelling (except for refinancing assistance), or owns a dwelling which is not structurally sound, functionally adequate, or large enough to accommodate the needs of the household.
- ✓ Be unable to obtain a loan from conventional lending sources on terms they can afford.
- ✓ Have an acceptable credit history.
- ✓ Possess the legal capacity to incur the loan obligation, or be considered an adult under State law.

- ✓ Have not been suspended or debarred from participation in Federal programs.
- ✓ Personally occupy the dwelling on a permanent basis.
- ✓ If military personnel, provide proof that a discharge will be received within a reasonable period of time, usually within one (1) year, and the family will continue to occupy the house in case the applicant is transferred to another duty station before discharge.
- ✓ If a student, provide proof of reasonable prospects of securing employment in the area after graduation.
- ✓ Be either a U.S. citizen or provide acceptable evidence of eligible immigration status. Aliens must provide acceptable evidence they are qualified aliens.
- ✓ Have sufficient income for loan repayment, taxes, insurance, living expenses, and other existing debts. Persons with inadequate repayment ability may obtain a co-signer for the loan. A co-signer is an individual who will not live in the dwelling, but who is willing to be responsible for the debt. The credit and repayment income of a co-signer is evaluated in the same manner as for loan applicants.

The Principal, Interest, Taxes and Insurance (PITI) and Total Debt (TD) ratios are used to establish debt repayment ability. The PITI ratio is the amount paid by the borrower for principal, interest, taxes and insurance divided by repayment income. The TD ratio is the amount paid by the borrower for principal, interest, taxes and insurance and any other recurring monthly debt, divided by repayment income.

The very low-income applicant is considered to have repayment ability when the proposed PITI and TD ratios are less than or equal to a PITI ratio of 29 percent and a TD ratio of 41 percent.

The low-income applicant is considered to have repayment ability when the proposed PITI and TD ratios are less than or equal to a PITI ratio of 33 percent and a TD ratio of 41 percent.

The market value of dwellings financed cannot exceed the applicable area loan limit established by Rural Housing Service. The market value limitation is 100 percent of market value for existing housing and for new dwellings.

Housing must be modest in size, design, and cost. Houses constructed, purchased, or rehabilitated must meet the voluntary national model building code adopted by the state and site standards. Manufactured housing must be permanently installed and meet the HUD Manufactured Housing Construction and Safety Standards.

There is no required down payment. Loans will be scheduled for repayment over a period that does not exceed the expected useful life of the property as a dwelling. The loan repayment period will not exceed:

1. 33 years for initial and subsequent loans;
2. 38 years for initial loans, or subsequent loan made in conjunction with an assumption (for those with incomes below 60 percent of the area adjusted median income and who cannot afford 33 year term); and
3. 30 years for manufactured homes.

Payment Assistance, a means of reducing monthly notes, may be granted on loans to qualified applicants to assist them in obtaining a decent, safe, and sanitary dwelling and related facilities.

The applicant must pay for the credit report. Additionally, the applicant must pay the appraisal fee, initial escrow deposit, and tax service fee (may be included in loan). The applicant is responsible for payment of closing costs and first year's paid insurance premium.

Section 502 Direct Single Family Housing loans may be made in partnership (leveraged) with a conventional loan. A leveraged loan will be secured by a second Real Estate Mortgage with the conventional lender having the first lien.

#### **RURAL DEVELOPMENT STATE OFFICE**

Single Family Housing Division  
3727 Government Street  
Alexandria, LA 71302  
Telephone: (318) 473-7630  
Fax: (318) 437-7829  
TDD/TTY: (318) 473-7655  
website: [www.rurdev.usda.gov/la](http://www.rurdev.usda.gov/la)  
Contact: Debbie Redfearn  
Single Family Housing  
Program Director

#### **MONROE AREA OFFICE**

USDA Service Center  
2410 Old Sterlington Rd., Suite C  
Monroe, LA 71203  
Telephone: (318) 343-4467 x 4  
Fax: (318) 343-5776

#### **NATCHITOCHES AREA OFFICE**

USDA Service Center  
6949 LA Hwy 1 Bypass, Suite 103  
Natchitoches, LA 71457  
Telephone: (318) 352-7100 x 4  
Fax: (318) 354-1682

#### **LAFAYETTE AREA OFFICE**

USDA Service Center  
Whitney National Bank  
905 Jefferson Street, Suite 320  
Lafayette, LA 70501-7913  
Telephone: (337) 262-6601 x 4  
Fax: (337) 262-6823

#### **AMITE AREA OFFICE**

USDA Service Center  
805 West Oak Street, Room 3  
Amite, LA 70422  
Telephone: (985) 748-8751 x 4  
Fax: (985) 748-4940



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